

JOHNSON OUTDOORS INC
Form 10-Q
May 02, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 28, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-16255

JOHNSON OUTDOORS INC.
(Exact name of Registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
incorporation or organization)

39-1536083
(I.R.S. Employer Identification No.)

555 Main Street, Racine, Wisconsin 53403
(Address of principal executive offices)

(262) 631-6600
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one): Large accelerated filer Accelerated filer Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company .

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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [] No [X]

As of April 25, 2014, 8,752,137 shares of Class A and 1,212,382 shares of Class B common stock of the Registrant were outstanding.

JOHNSON OUTDOORS INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

JOHNSON OUTDOORS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(thousands, except per share data)	Three Months Ended		Six Months Ended	
	March 28 2014	March 29 2013	March 28 2014	March 29 2013
Net sales	\$ 124,273	\$ 132,100	\$ 203,373	\$ 219,374
Cost of sales	75,427	78,016	124,598	131,476
Gross profit	48,846	54,084	78,775	87,898
Operating expenses:				
Marketing and selling	23,938	25,876	42,910	45,094
Administrative management, finance and information systems	9,513	11,500	19,531	20,945
Research and development	3,849	4,070	7,696	7,695
Total operating expenses	37,300	41,446	70,137	73,734
Operating profit	11,546	12,638	8,638	14,164
Interest income	(5)	(32)	(36)	(53)
Interest expense	313	485	515	924
Other expense (income), net	24	(878)	(135)	(380)
Income before income taxes	11,214	13,063	8,294	13,673
Income tax expense	3,810	4,126	3,083	4,489
Net income	\$ 7,404	\$ 8,937	\$ 5,211	\$ 9,184
Weighted average common shares - Basic:				
Class A	8,431	8,328	8,397	8,274
Class B	1,212	1,214	1,212	1,214
Dilutive stock options and restricted stock units	6	4	2	3
Weighted average common shares - Dilutive	9,649	9,546	9,611	9,491
Net income per common share - Basic:				
Class A	\$ 0.75	\$ 0.91	\$ 0.53	\$ 0.94
Class B	\$ 0.68	\$ 0.83	\$ 0.48	\$ 0.85
Net income per common share - Diluted:				
Class A	\$ 0.67	\$ 0.90	\$ 0.30	\$ 0.93
Class B	\$ 0.67	\$ 0.90	\$ 0.30	\$ 0.93
Dividends declared per common share:				
Class A	\$ 0.08	\$ -	\$ 0.23	\$ -
Class B	\$ 0.07	\$ -	\$ 0.20	\$ -

The accompanying notes are an integral part of the condensed consolidated financial statements.

JOHNSON OUTDOORS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(thousands, except per share data)	Three Months Ended		Six Months Ended	
	March 28 2014	March 29 2013	March 28 2014	March 29 2013
Comprehensive income:				
Net income	\$7,404	\$8,937	\$5,211	\$9,184
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	122	(3,345)	246	(2,473)
Change in pension plans, net of tax of \$63, \$0, \$126 and \$0, respectively	103	-	207	-
Amortization of unrealized loss on interest rate swap	-	-	-	138
Total other comprehensive income (loss)	225	(3,345)	453	(2,335)
Total comprehensive income	\$7,629	\$5,592	\$5,664	\$6,849

The accompanying notes are an integral part of the condensed consolidated financial statements.

JOHNSON OUTDOORS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

(thousands, except share data)	March 28 2014	September 27 2013	March 29 2013
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 48,653	\$ 55,694	\$ 40,392
Accounts receivable, net	98,484	44,104	109,176
Inventories	85,089	76,363	85,192
Deferred income taxes	8,798	7,869	6,773
Other current assets	6,384	4,542	6,491
Total current assets	247,408	188,572	248,024
Property, plant and equipment, net of accumulated depreciation of \$105,758, \$103,314 and \$102,165, respectively	45,198	43,394	38,480
Deferred income taxes	7,679	8,039	15,495
Goodwill	21,137	21,053	20,907
Other intangible assets, net	14,748	15,068	14,325
Other assets	12,359	12,224	11,274
Total assets	\$ 348,529	\$ 288,350	\$ 348,505
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt	\$ 150	\$ -	\$ 52,000
Current maturities of long-term debt	418	539	542
Accounts payable	40,689	26,466	41,857
Accrued liabilities:			
Salaries, wages and benefits	10,413	17,702	11,475
Accrued warranty	4,614	5,214	5,280
Income taxes payable	4,215	1,300	4,168
Other	16,236	12,151	17,211
Total current liabilities	76,735	63,372	132,533
Long-term debt, less current maturities	49,627	7,794	8,057
Deferred income taxes	1,125	1,114	4,831
Retirement benefits	6,110	6,346	11,785
Other liabilities	13,558	12,056	10,934
Total liabilities	147,155	90,682	168,140
Shareholders' equity:			
Preferred stock: none issued	-	-	-
Common stock:			
Class A shares issued and outstanding:	438	438	437
March 28, 2014: 8,752,137			
September 27, 2013: 8,724,984			
March 29, 2013: 8,714,178			
Class B shares issued and outstanding:	61	61	61
March 28, 2014: 1,212,382			
September 27, 2013: 1,212,420			
March 29, 2013: 1,213,664			

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Capital in excess of par value	66,223	66,374	64,817
Retained earnings	115,141	112,144	102,001
Accumulated other comprehensive income	19,819	19,366	13,782
Treasury stock at cost, shares of Class A common stock: 12,523, 34,766 and 35,680, respectively	(308)	(715)	(733)
Total shareholders' equity	201,374	197,668	180,365
Total liabilities and shareholders' equity	\$ 348,529	\$ 288,350	\$ 348,505

The accompanying notes are an integral part of the condensed consolidated financial statements.

JOHNSON OUTDOORS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(thousands)	Six Months Ended	
	March 28 2014	March 29 2013
CASH USED FOR OPERATING ACTIVITIES		
Net income	\$5,211	\$9,184
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation	4,755	4,642
Amortization of intangible assets	355	306
Amortization of deferred financing costs	34	119
Stock based compensation	826	714
Amortization of deferred loss on interest rate swap	-	138
Deferred income taxes	(591)	723
Change in operating assets and liabilities, net of effects of acquired business:		
Accounts receivable, net	(54,751)	(67,858)
Inventories, net	(8,707)	(16,343)
Accounts payable and accrued liabilities	12,534	20,827
Other current assets	(1,817)	1,209
Other non-current assets	(1,333)	(1,001)
Other long-term liabilities	1,566	788
Other, net	(27)	49
	(41,945)	(46,503)
CASH USED FOR INVESTING ACTIVITIES		
Payments for purchase of business	-	(15,420)
Capital expenditures	(6,704)	(6,087)
Proceeds from sales of property, plant and equipment	1,376	-
	(5,328)	(21,507)
CASH PROVIDED BY FINANCING ACTIVITIES		
Net borrowings from short-term notes payable and revolving credit lines	42,149	52,000
Principal payments on senior notes and other long-term debt	(288)	(262)
Deferred financing costs paid to lenders	(34)	-
Common stock transactions	68	86
Dividends paid	(1,475)	-
Purchases of treasury stock	(638)	(886)
	39,782	50,938
Effect of foreign currency rate changes on cash	450	(1,440)
Decrease in cash and cash equivalents	(7,041)	(18,512)
CASH AND CASH EQUIVALENTS		
Beginning of period	55,694	58,904
End of period	\$48,653	\$40,392

The accompanying notes are an integral part of the condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1 BASIS OF PRESENTATION

The condensed consolidated financial statements included herein are unaudited. In the opinion of management, these statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Johnson Outdoors Inc. and subsidiaries (collectively, the “Company”) as of March 28, 2014 and March 29, 2013, and the results of operations for the three and six month periods then ended and cash flows for the six month periods then ended. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 27, 2013 which was filed with the Securities and Exchange Commission on December 6, 2013.

Due to seasonal variations and other factors, the results of operations for the three and six months ended March 28, 2014 are not necessarily indicative of the results to be expected for the Company's full 2014 fiscal year. See “Seasonality” in the Management’s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein for additional information.

Certain amounts in the Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Cash Flows and related footnotes for the periods ended March 29, 2013 have been adjusted to reflect the effect of measurement period adjustments related to the acquisition of Jetboil as of the date of acquisition. Additional information on this acquisition can be found in Note 10 below.

All monetary amounts, other than share and per share amounts, are stated in thousands.

2 ACCOUNTS RECEIVABLE

Accounts receivable are stated net of allowances for doubtful accounts of \$3,072, \$3,759 and \$3,551 as of the periods ended March 28, 2014, September 27, 2013 and March 29, 2013, respectively. The increase in net accounts receivable to \$98,484 as of March 28, 2014 from \$44,104 as of September 27, 2013 is attributable to the seasonal nature of the Company's business. The determination of the allowance for doubtful accounts is based on a combination of factors. In circumstances where specific collection concerns on a receivable exist, a reserve is established to value the affected account receivable at an amount the Company believes will be collected. For all other customers, the Company recognizes allowances for doubtful accounts based on historical experience of bad debts as a percent of accounts receivable outstanding for each business unit. Uncollectible accounts are written off against the allowance for doubtful accounts after collection efforts have been exhausted. The Company typically does not require collateral on its accounts receivable.

3 EARNINGS PER SHARE (“EPS”)

Net income or loss per share of Class A common stock and Class B common stock is computed using the two-class method. Grants of restricted stock which receive non-forfeitable dividends are classified as participating securities and are required to be included as part of the basic weighted average share calculation under the two-class method.

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Holders of Class A common stock are entitled to cash dividends equal to 110% of all dividends declared and paid on each share of Class B common stock. The Company grants shares of unvested restricted stock in the form of Class A shares, which carry the same distribution rights as the Class A common stock described above. As such, the undistributed earnings for each period are allocated to each class of common stock based on the proportionate share of the amount of cash dividends that each such class is entitled to receive.

Basic EPS

Basic net income or loss per share is computed by dividing net income or loss allocated to Class A common stock and Class B common stock by the weighted-average number of shares of Class A common stock and Class B common stock outstanding, respectively. In periods with cumulative year to date net income and undistributed income, the undistributed income for each period is allocated to each class of common stock based on the proportionate share of the amount of cash dividends that each such class is entitled to receive. In periods where there is a cumulative year to date net loss or no undistributed income because distributions through dividends exceed net income, Class B shares are treated as anti-dilutive and, therefore, net losses are allocated equally on a per share basis among all participating securities.

For the three and six month periods ended March 28, 2014 and March 29, 2013, basic net income per share for Class A and Class B shares has been presented using the two class method and reflects the allocation of undistributed income as described above.

Diluted EPS

Diluted net income per share is computed by dividing allocated net income by the weighted-average number of common shares outstanding, adjusted for the effect of dilutive stock options, restricted stock units ("stock units" or "units") and non-vested restricted stock. Anti-dilutive stock options, units and non-vested stock are excluded from the calculation of diluted EPS. The computation of diluted net income per share of Class A common stock assumes that Class B common stock is converted into Class A common stock. Therefore, diluted net income per share is the same for both Class A and Class B common shares. In periods where the Company reports a net loss, the effect of anti-dilutive stock options and units is excluded and diluted loss per share is equal to basic loss per share.

For the three and six month periods ended March 28, 2014 and March 29, 2013, diluted net income per share reflects the effect of dilutive stock options and units and assumes the conversion of Class B common stock into Class A common stock. As a result, diluted earnings per share for Class A and Class B common stock during these periods is the same.

Stock options that could potentially dilute earnings per share in the future which were not included in the fully diluted computation because they would have been anti-dilutive were 0 for each of the three and six month periods ended March 28, 2014 and March 29, 2013. Non-vested stock that could potentially dilute earnings per share in the future which were not included in the fully diluted computation because they would have been anti-dilutive totaled 319,632 and 386,409 for the three months ended March 28, 2014 and March 29, 2013, respectively, and 344,963 and 427,246 for the six months ended March 28, 2014 and March 29, 2013, respectively. Restricted stock units that could potentially dilute earnings per share in the future which were not included in the fully diluted computation because they would have been anti-dilutive were 0 for the each of three months ended March 28, 2014 and March 29, 2013. Restricted stock units that could potentially dilute earnings per share in the future which were not included in the fully diluted computation because they would have been anti-dilutive were 8,040 and 0 for the six months ended

March 28, 2014 and March 29, 2013, respectively.

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4 STOCK-BASED COMPENSATION AND STOCK OWNERSHIP PLANS

The Company's current stock ownership plans allow for issuance of stock options to acquire shares of Class A common stock by key executives and non-employee directors. Current plans also allow for issuance of shares of restricted stock, restricted stock units or stock appreciation rights in lieu of stock options.

Under the Company's 2010 Long-Term Stock Incentive Plan and the 2012 Non-Employee Director Stock Ownership Plan (the only two plans where shares remain available for equity incentive awards) there were 708,084 shares of the Company's Class A common stock available for grant to key executives and non-employee directors at March 28, 2014.

Stock Options

All stock options have been granted at a price not less than fair market value at the date of grant and all outstanding options are currently exercisable. Stock options generally have a term of 10 years.

All of the Company's stock options outstanding are fully vested, with no further compensation expense to be recorded. There were no grants of stock options during either of the six month periods ended March 28, 2014 or March 29, 2013.

A summary of stock option activity for the six months ended March 28, 2014 related to the Company's stock ownership plans is shown below:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Outstanding and exercisable at September 27, 2013	15,066	\$ 18.16		
Exercised	(3,900)	19.88		
Cancelled	(1,950)	19.88		
Outstanding and exercisable at March 28, 2014	9,216	17.07	\$73	1.3

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$25.03 as of March 28, 2014, which would have been received by the option holders had those option holders exercised their stock options as of that date.

The Company received cash proceeds from stock option exercises totaling \$78 and \$86 for the six month periods ending March 28, 2014 and March 29, 2013, respectively. The fair value of the stock received upon exercise of such options at their date of exercise during the six month periods ended March 28, 2014 and March 29, 2013 was \$96 and \$171, respectively.

Non-vested Stock

All shares of non-vested stock awarded by the Company have been granted at their fair market value on the date of grant and vest either immediately or within five years after the grant date. The fair value at date of grant is based on

the number of shares granted and the average of the Company's high and low Class A common stock price on the date of grant or, if the Company's shares did not trade on the date of grant, the average of the Company's high and low Class A common stock price on the last preceding date on which the Company's shares traded.

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A summary of non-vested stock activity for the six months ended March 28, 2014 related to the Company's stock ownership plans is as follows:

	Shares	Weighted Average Grant Price
Non-vested stock at September 27, 2013	386,409	\$13.78
Non-vested stock grants	47,934	27.70
Restricted stock vested	(114,711)	10.32
Non-vested stock at March 28, 2014	319,632	17.10

Non-vested stock grantees may elect to reimburse the Company for withholding taxes due as a result of the vesting of shares by tendering a portion of the vested shares back to the Company. Shares tendered back to the Company were 24,719 and 43,464 during the six month periods ended March 28, 2014 and March 29, 2013, respectively.

Stock compensation expense, net of forfeitures, related to non-vested stock was \$391 and \$346 for the three month periods ended March 28, 2014 and March 29, 2013, respectively, and \$748 and \$701 for the six month periods ended March 28, 2014 and March 29, 2013, respectively. Unrecognized compensation cost related to non-vested stock as of March 28, 2014 was \$2,883